

**BANK GOSPODARSTWA KRAJOWEGO  
FINANCIAL STATEMENTS  
WARSAW, AL. JEROZOLIMSKIE 7**

**FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR 2017**

**AND  
OPINION OF AN INDEPENDENT STATUTORY  
AUDITOR**

## **TABLE OF CONTENTS**

### **OPINION OF AN INDEPENDENT STATUTORY AUDITOR ON THE AUDIT**

### **FINANCIAL STATEMENTS OF THE BANK FOR THE FINANCIAL YEAR 2017**

1. Profit and loss account
2. Statement of Comprehensive Income
3. Statement of Financial Position
4. Statement of Changes in Equity
5. Statement of Cash Flows
6. Notes with information on adopted accounting policy and other explanations

### **REPORT ON ACTIVITIES OF THE BANK FOR THE FINANCIAL YEAR 2017**

## **OPINION OF AN INDEPENDENT STATUTORY AUDITOR ON THE AUDIT**

### **For the Supervisory Board of Bank Gospodarstwa Krajowego**

#### **Report on the examination of annual financial statements**

We have audited the attached annual financial statements of Bank Gospodarstwa Krajowego with its registered office in Warsaw, Al. Jerozolimskie 7 (hereinafter: the "Bank"), including: profit and loss account and statement of comprehensive income for the financial year from 1 January 2017 to 31 December 2017, statement of financial position as at 31 December 2017, statement of changes in equity, and cash flow statement for the financial year from 1 January 2017 to 31 December 2017 and notes with information on adopted accounting policy and other explanations (hereinafter: "financial statements").

#### *Responsibility of the Management Board of the Bank and those exercising supervision over the financial statements*

The Management Board of the Bank is obliged to prepare the financial statements based on properly kept accounting records and to present them fairly in line with International Accounting Standards, International Financial Reporting Standards, and their interpretations published in the form of regulations of the European Commissions and other applicable legal acts, as well as in conformity with the Bank's Articles of Association. The Management Board of the Bank is also responsible for ensuring internal control necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act of 29 September 1994 (Journal of Laws of 2018, item 395, as amended), hereinafter referred to as "Accounting Act", the Management Board of the Bank and members of its Supervisory Board are obliged to ensure that the financial statements meet the requirements of the Accounting Act.

#### *Statutory auditor's responsibility*

Our responsibility is to express an opinion whether these financial statements give a true and fair view of the material and financial condition as well as the financial result of the Bank in line with International Accounting Standards, International Financial Reporting Standards as well as their interpretations published in the form of regulations of the European Commissions and adopted accounting principles (policies).

The examination of the financial statements was carried out in line with the following provisions:

- 1) the Act of 11 May 2017 on Statutory Auditors, Auditing Companies, and Public Supervision (Journal of Laws of 2017, item 1089, as amended) (hereinafter "Statutory Auditor Acts"),
- 2) National Standards for Financial Audit, within the meaning of International Examination Standards adopted by way of resolution no. 2783/52/2015 of the National Chamber of Statutory

Auditors of 10 February 2015, as amended, in connection with resolution no. 2041/37a/2018 of 5 March 2018 on national standards for practising professions,

- 3) Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (OJ EU L 158, 27 May 2014, p. 77 and OJ EU L 170, 11 June 2014, p. 66) ("Regulation 537/2014").

These regulations call for observance of ethical requirements as well as planning and conducting an audit in such a way as to have reasonable certainty that the financial statements are free of material misstatements.

The purpose of the audit was to obtain reasonable certainty that the financial statements as a whole have been prepared on the basis of properly kept accounting books and are free from material misstatement, whether due to fraud or error, and to issue a report of independent statutory auditor comprising our opinion. Reasonable certainty is a high enough level, but does not guarantee that the audit conducted in line with the above standards would always identify any significant material misstatement. Misstatements may result from a fraud or error and are considered material if it can be reasonably expected that they could have impacted, whether individually or collectively, any business decisions of the users made on the basis of these financial statements. A risk of failure to identify a misstatement due to fraud is higher than a risk of failure to identify a misstatement due to error because it can also be related to any collusions, falsification, intentional omissions, misleading or bypassing internal control and it may concern each legal and regulatory domain, not only the one having a direct impact on the financial statements.

The audit consisted in carrying out procedures aimed at obtaining evidence of examination of the amounts and disclosures in the financial statements. The selection of audit procedures depends on the judgement of a statutory auditor, including an assessment of the risk of material misstatement of the financial statements due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies, the reasonableness of accounting estimates defined by the Management Board, and an overall recognition of financial statements.

The audit does not guarantee that the Bank will be profitable in the future or that its affairs, whether present or future, will be carried out by the Management Board in an efficient or effective way.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The opinion is compliant with the additional statement of the Auditing Committee issued on the date of this audit report.

#### *Independence*

In the course of the audit the key statutory auditor and the audit company were independent from the audited Bank, in line with the Act on Statutory Auditors, Regulation 537/2014, and the principles of professional ethics adopted by way of resolutions of the National Chamber of Statutory Auditors.

To the best of our knowledge and experience, we hereby declare that we have not provided any services other than the audit that are prohibited under Article 136 of the Act on Statutory Auditors and Article 5 sec. 1 of Regulation 537/2014.

### *Selection of an audit company*

We have been selected to audit the financial statements of the Bank by way of resolution no. 29/2015/VII of the Supervisory Board of the Bank of 27 July 2015. The financial statements of the Bank are being audit by is continuously from the financial year ended on 31 December 2015, i.e. for a period of 3 subsequent financial years.

### *Most significant risk types*

During the audit we've identified most significant types of the risk of material misstatement as specified below, also due to fraud, and developed relevant audit procedures for such types of risks. Where considered appropriate for understanding the identified risk and procedures carried out by a statutory auditor, we've also included most significant observations related to those types of risk.

<b>A description of type of risk of material misstatement</b>	<b>Procedures of a statutory auditor in a response to identified risk and most significant observations related to those types of risk</b>
<p><i>Impairment losses on financial assets</i></p> <p>The amount of impairment losses on financial assets as well as a change in this item was specified in detail in notes 9 and 18 to the financial statements.</p> <p>Impairment losses on financial assets contain a significant element of judgement and material estimate.</p> <p>This issue considered a significant risk area due to the substantial impact of impairment losses on balance-sheet valuation of loan receivables as well as the requirement for carrying out estimates based on recovery scenarios and estimation of future cash flows due to repayments and collaterals.</p>	<p>We have conducted a critical review of the design and operation of the process and policy of establishing impairment losses on financial assets and evaluated the control system in this process, including automatic controls in the Bank's IT systems, taking into account the possibility of control circumvention.</p> <p>As part of our procedures we've determined the base of loan receivables with the accounting books of the Bank to confirm the completeness of the recognition of loan receivables that serve as a basis for establishing impairment losses, including the amount of such losses.</p> <p>Our procedures also comprise an analysis of a sample of individually significant loan receivables in terms of the process of identification of premises for impairment losses. Additionally, for exposures with evidence of impairment we analyzed the assumptions concerning the recovery scenarios and estimated future cash flows due to repayments and collaterals in order to confirm the level of either impairment losses.</p> <p>For individually assessed loans and receivables we have analyzed the valuation of collaterals and assumptions with regard to other cash-flows provided by the Management Board.</p> <p>As regards exposures subject to portfolio assessment of losses, we've performed an analysis of the changes with regard to methodology of calculation of impairment losses and provisions for off-</p>

A description of type of risk of material misstatement	Procedures of a statutory auditor in a response to identified risk and most significant observations related to those types of risk
	<p>balance sheet liabilities, an analysis of the parameters used by the Bank, scrutiny of both the reports from the validation of models and backtests. We have also performed the recalculation of impairment allowances amounts for the selected sample of loans receivables.</p> <p>In addition, we have performed an analysis of changes of assumptions that were used for construction of models for credit risk measurement in order to ensure compliance with the current trends in the banking sector as well as compare the levels of coverage of the portfolio against the Polish banking sector.</p>
<p><i>Equity instrument valuation</i></p> <p>Investments in subsidiaries, investments in associates, and investments in equity instruments categorized as available for sale are specified in detail in note 22, 23, and 20 to the financial statements.</p> <p>We regarded this issue as the risk of material misstatement due to the significance of investments in equity instruments, the complexity of control existence assessment as well as the fact that, depending on the type of investment, their valuation requires that the Management Board applies professional judgement and a number of premises concerning (among other things):</p> <ul style="list-style-type: none"> <li>- evaluation of the evidence of impairment,</li> <li>- estimation of expected cash flows and discount rates,</li> <li>- a reliable estimation of fair value.</li> </ul>	<p>As part of the audit we have documented our understanding of the process of ensuring by the management of the appropriate level of internal control in the equity instrument measurement process.</p> <p>We have also carried out a critical analysis of the design and functioning of the investment process in the Bank as well as a review of resolutions of the Management Board of the Bank as well as minutes of the Financial Committee of the Bank to understand the investment activity of the Bank.</p> <p>We have listed the items of investments in equity instruments and investment certificate portfolio with the accounting books of the Bank.</p> <p>Our detailed procedures were as follows (among other things):</p> <ul style="list-style-type: none"> <li>• verification of the appropriateness of adopted classification for investments in equity instruments, including control existence assessment,</li> <li>• assessment of the appropriateness of valuation of these investments according to the purchase price or fair value,</li> <li>• for investments in equity instruments</li> </ul>

A description of type of risk of material misstatement	Procedures of a statutory auditor in a response to identified risk and most significant observations related to those types of risk
	<p>measured at the purchase price, the verification of the appropriateness and completeness of impairment losses created,</p> <ul style="list-style-type: none"> <li>• for listed investments in equity instruments, measured at fair value, an independent measurement of investments as at the balance sheet date was carried out,</li> <li>• for listed investments in equity instruments, measured at fair value, we've carried out a review of measurement models used by the Bank, which also included the verification of adopted parameters and premises.</li> </ul>

### *Opinion*

In our opinion, the annexed annual financial statements of Bank Gospodarstwa Krajowego:

- give a true and fair view of the economic and financial position of the Bank as at 31 December 2017 and its financial performance during the financial year from 1 January 2017 to 31 December 2017, in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and the adopted accounting principles (policies);
- were prepared on the basis of correctly kept accounting books in line with Chapter 2 of the Accounting Act,
- comply, with respect to their form and content, with the applicable provisions of law and of the Articles of Association of the Bank.

### **Report on other legal and regulatory requirements**

#### *Opinion on the report on activities*

The opinion on financial statements does not extend to the report on activities.

It is the responsibility of the Management Board of the Bank to prepare the report on the activities of the Bank in accordance with the Accounting Act and other applicable laws. The Management Board of the Bank and members of the Supervisory Board are also obliged to ensure that the report on the activities of the Bank meets the requirements of the Accounting Act.

Under the act on statutory auditors we were obliged to issue an opinion as to whether the report on activities complies with legal regulations and is consistent with underlying information disclosed in the attached financial statements. Additionally, it was our responsibility to indicate whether we have detected any material misstatement in the financial based on our knowledge of the Bank and its business environment obtained in the course of the audit and to explain the nature of each such material misstatement. Additionally, according to Article 111a paragraph 3 of the Banking Law of 29 August 1997 (Journal of Laws of 2015, item 128, as amended), hereinafter referred to as "Banking

Law”, our responsibility was to audit financial information presented in chapter 11 of the report on the activities of the Bank.

In our opinion, the report on the activities has been prepared in line with the applicable provisions of law and is consistent with the underlying information disclosed in the attached financial statements. Furthermore, based on our knowledge of the Bank and its business environment obtained in the course of the audit we believe that the report on the activities is free from material misstatement.

*Information about non-financial statement*

Under the Act on Statutory Auditors, we hereby inform that the Bank has not prepared a statement on non-financial information referred to in Article 49b (1) of the Accounting Act due to the fact the bank is not required to do so due to its legal form.

*Other information, including information on compliance with statutory requirements*

The Management Board of the Bank is responsible for compliance with prudence principles determined by the Banking Law of 29 August 1997 (Journal of Laws of 2015, item 128, as amended), resolutions of the Management of the National Bank of Poland and resolutions of the Polish Financial Supervisory Authority. Based on the performed audit our responsibility was to provide information whether the Bank is compliant with the binding prudence principles. Our objective was not to express an opinion on adherence to those principles.

Based on the work conducted during the audit we would like to inform you that we did not identify any breach of the prudence principles by the Bank or any discrepancies that might have a significant influence on the financial statement of the Bank, especially in the area of correctness of calculation of capital ratio.

On behalf of Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. (up to 18 March 2018 operating under the name Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. k.) – an entity entered on the list of audit firms kept by the National Council of Statutory Auditors under reference number 73:

Dorota Snarska-Kuman  
Key statutory auditor  
licence no. 9667

Warsaw, 23 April 2018